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TAGS: ECON ENRG PGOV PREL RU AZ GG

SUBJECT: GEORGIA SIGNS 5 YEAR MOU FOR GAS WITH SOCAR

REF: OLSON 11/10/2008 E-MAIL

Classified By: Ambassador John F. Tefft for reasons 1.4 (b) and (d).

¶1. (C) Summary and Comment: After months of discussion, the Georgian government signed a five-year memorandum of understanding (MOU) with SOCAR, the Azerbaijani state oil and gas company, to provide natural gas to Georgia. The agreement will, in principle, take effect on January 1, 2009 following the expiration of Georgia's current contract with SOCAR. The actual amount of gas Georgia purchases will depend on demand. The MOU states the agreement will provide for any deficit between supply and "social" demand at existing prices. Negotiating on the actual contract for 2009 continues, and the GOG worries it may not be concluded by January 1. For its part, the Government of Georgia will sell 26 regional gas distribution networks, covering the whole country except for Tbilisi, to SOCAR. This deal has yet to be finalized, although talks continue. The pre-conflict status quo regarding the operation of the Enguri power plant (the dam is in Georgia, but the power station across the "border" in Abkhazia) seems to have taken hold, although the threat of a power shutoff remains real. Georgia appears to have made significant progress to ensure its energy needs in the short term. End Summary and Comment.

VOLUME TO MAKE UP GEORGIAN DEFICIT

¶2. (C) According to First Deputy Minister of Energy Valishvili, the amount of gas provided under the MOU will vary based on season and demand. The MOU is written to meet any deficit demand of commercial and individual customers. The volumes will essentially equal total Georgian "social" demand minus transit gas from Russia and Georgia's transit allotment from the South Caucasus Pipeline (SCP). The actual volume will vary, as Georgian natural gas demand in winter is approximately 9 mcm/day, while it is merely 2 mcm/day in the summer. Approximately two-thirds of Georgian gas consumption is used mostly for residential customers and for power production, with the remaining one-third being used commercially. Based on these figures, contracted volumes with Azerbaijan as of 2009 could be as high as 5 to 6 mcm/day in winter.

PRICES REMAIN STABLE

¶3. (C) According to the GOG, the five year agreement, which will run through December 31, 2013, keeps prices at the current rate. Georgian Minister of Energy Khetaguri elaborated that the price for &social8 users, which includes residential and thermal power plants, would be approximately 164 USD/tcm. The commercial rate would vary based on market prices. Commercial contracts will be negotiated and agreed directly by SOCAR and commercial users.

According to Khetaguri, the current commercial rate in Georgia is 258 USD from SOCAR and 280 USD from Gazprom. Some commercial entities, including Itera, are buying gas directly from Gazprom, although the Georgian Oil and Gas Company is not currently buying gas from Gazprom.

SIGNED ON THE DOTTED LINE, NOW THE HARD WORK STARTS

¶4. (C) Now that the MOU has been signed, Valishvili stressed that the hard, painful work of negotiating a contract has begun. She is hopeful that an agreement can be reached for 2009 by January 1, but is skeptical. She said the bureaucracy of the Azerbaijani system, both within the government and SOCAR, will make the contract negotiations challenging and likely lengthy.

NEGOTIATING CONTINUES ON SALE OF GAS NETWORKS TO SOCAR

¶5. (C) Minister Khetaguri confirmed to us that the Georgian government has agreed to sell all 26 regional gas distribution networks to SOCAR as part of the larger MOU negotiation. (Note: This does not include the Tbilisi system which is currently owned by KazTransGas). Valishvili said the Ministry of Economic Development is continuing to negotiate with SOCAR over final sale of the distribution assets. She did not know when the final sale will be completed.

ENGURI) MAINTAINING THE STATUS QUO

¶6. (C) On Enguri, Khetaguri said not much has changed in recent days. He said the sharing of power from the Enguri station continues as it did prior to the conflict, and the Abkhaz and Russians have been relatively quiet. He stressed that the five yearMOU with SOCAR is the best defense against an Russian/Abkhaz shutoff of the Enguri power station.
(Embassy note: Georgia reportedly depends upon power from Enguri to meet 40% of its energy needs during winter. The

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Abkhaz have repeatedly threatened to stop the operation of the power plant (located in Abkhazia) and cut off power to Georgia; the Georgian have responded with a threat to cut off the water from the dam, stopping the supply of electricity to Sukhumi and the rest of Abkhazia. End note.) With Georgian natural gas needs met, Khetaguri said that the country could deal with the threat of a cut off of Enguri power much more easily than the Abkhaz could in Sukhumi. In his view, the Russians, or their Abkhaz allies, would only decide to cut the power from Enguri to Georgia only if they are sure that such a move would completely cripple the Georgian government.
TEFFT